

**DUKE POWER COMPANY
DOCKET NO. 2004-3-E
SUMMARY OF JACQUELINE R. CHERRY
RE: DUKE POWER COMPANY-- FUEL ADJUSTMENT CLAUSE REPORT**

The Audit Department Staff examined Duke Power Company's Fuel Adjustment Clause operation for the period April 2003 through May 2004. However, since this current hearing was scheduled for May 2004, Staff's audit work did not include any testing for the months of April and May 2004.

The Audit Staff traced the fuel information, as filed in the Company's required monthly filings, to the Company's books and records. The purpose of the examination was to determine if Duke Power Company had computed and applied the monthly Fuel Adjustment Clause in accordance with the approved clause. To accomplish this, Staff examined the components surrounding the operation of the clause.

The examination consisted of an analysis of Account #151—Fuel Stock, sample of receipts to the Fuel Stock Account—Account #151, verification of charges to Nuclear Fuel Expense---Account #518, an analysis of Purchased Power and Interchange, verification of KWH Sales, a comparison of Coal Costs, an analysis of Spot Coal purchasing procedures, recomputation of the Fuel Cost Adjustment Factors, verification of Deferred Fuel Costs, and the recomputation of the True-up for the Over/(Under)-Recovered Fuel Costs.

Staff analyzed the cumulative over-recovery of fuel costs that the Company had incurred for the period April 2003 through March 2004 of \$11,424,295. Staff added the projected (under)-recovery for April 2004 of (\$1,347,338) and the projected (under)-recovery for May 2004 of (\$3,748,985) to arrive at a cumulative over-recovery of \$6,327,972. The Company's cumulative over-recovery as of March 2004 and cumulative over-recovery as of May 2004 differs from Staff's by \$173,705 and \$174,028, respectively (\$174,000 on a rounded basis). Staff and the Company reflected various differences in the monthly deferred fuel entries due mostly to rounding and

in one month, due to a Purchased Power avoided cost adjustment. Differences in the Purchased Power figures were cited in May and July 2003.

Staff's Purchased Power figures for April 2003 through March 2004 and the resultant over (under)-recovery monthly deferred fuel amounts for April 2003 through March 2004 reflects Staff's compliance with the recently revised section of the S.C. Fuel Statute (updated as of February 2004). This Statute addresses "fuel costs related to purchased power". Section 7 (2)(b) of the revised Statute stated that the delivered cost of economy purchases, including transmission charges, could be included in Purchased Power Costs if those types of purchases were proven to be "less than the purchasing utility's avoided variable costs for the generation of an equivalent quantity of electric power". After Staff applied this revised Statute to the examined economic purchases in comparison to the applicable avoided costs, Staff's adjustment increased the review period's Purchased Power Costs, on a total system—native load basis, by \$1,783,947. As mentioned previously, according to the new Statute section, transmission charges could be included in the delivered cost of economy purchases. The Audit Staff and the Company could not readily identify the economy transmission charges for this review period. Therefore, Staff did not make an adjustment to specifically include these charges. Based on the new Statute section, after comparing the economy purchases to the Company's applicable avoided variable costs, Staff's avoided costs adjustment totaled (\$69,274). This figure reflects the usage of an avoided cost as a lesser price, at that point in time, over a purchase price. Staff's avoided cost adjustment (on a native load basis) of (\$69,274) also reflects the difference (as adjusted for rounding) between the Company's and the Staff's Purchased Power Costs for the review period, on a total system basis.

The Company and the Consumer Advocate agreed on a Stipulation in April 2004 concerning the treatment of various Purchased Power Costs that was an issue in the previous Duke fuel hearings of Docket No. 2002-3-E and

Docket No. 2003-3-E. The Stipulation was subsequently approved by the Public Service Commission of S.C. on May 4, 2004. The Stipulation between the Company and the Consumer Advocate stated that the Company would "forego recovery of \$500,000" in fuel costs as a settlement amount for the two aforementioned fuel dockets. It should be noted that the Company had already, at the time of the Stipulation, booked a reverse journal entry of \$566,033 (\$564,000 before the tax factor of 1.0044) that could be considered in favor of the ratepayers. Therefore, Staff reflects an agreement with the Stipulation by reflecting a "Stipulation Adjustment" of \$500,000 as an over-recovery adjustment in the calculation of the cumulative deferred over-recovery balance as of March 2004.

As stated in Duke Power Company's Adjustment for Fuel Costs, fuel costs will be included in base rates to the extent determined reasonable by the Commission.

5/07/04